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PASS: E FOR COOPER, TREASURY FOR SECRETART BLUMENTHAL
AND UNDER SECRETARY SOLOMON

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SUBJECT: OECD MINISTERIAL DISCUSSION OF STRATEGTYFOR
SUSTAINED ECONOMIC EXPANSION IN THE OECD AREA AND
RENEWAL OF TRADE PLEDGE

REF: (A) C(77)111, (B) PARIS 13441, (C) PARIS 18745,
(D) PARIS 18744, (E) PARIS 18747

1. SUMMARY AND MAIN CONCLUSIONS: SECOND DAY MINISTER-
IAL PLENARY SESSION FOCUSED ON PROSPECTS AND POLICIES
FOR SUSTAINED ECONOMIC RECOVERY IN OECD AREA. MINISTERS
ALSO RENEWED TRADE PLEDGE . ALTHOUGH COUNTRIES'
VIEWS ON ECONOMIC POLICY REQUIREMENTS DIFFERED ON SOME
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SPECIFIC POINTS, BROAD CONSENSUS WAS REACHED ALONG
FOLLOWING LINES: (A) MINISTERS REAFFIRMED MEDIUM-TERM
STRATEGY FOR SUSTAINED EXPANSION ENDORSED AT JUNE, 1976
MINISTERIAL; (B) THEY AGREED THAT GOALS OF STRATEGY
WOULD BE ADVANCED BY ACHIEVEMENT OF SOMEWHAT FASTER
RATE OF GROWTH FOR OECD AREAS AS A WHOLE IN 1978 THAN
THAT EXPECTED FOR 1977 (ALTHOUGH NOT FOR ALL COUNTRIES)

TO ENABLE REAL PROGRESS TO BE MADE IN REDUCING UNEMPLOYMENT AND HELP STIMULATE INVESTMENT, CONSISTENT WITH FURTHER PROGRESS IN REDUCING INFLATION; OECD AREA AGGREGATE GROWTH RATE OF AROUND 5 PERCENT IN 1978 WOULD AT THIS POINT SEEM DESIRABLE AND CONSISTENT WITH STRATEGY; (C) POLICIES AND OBJECTIVES SHOULD DIFFER ACCORDING TO CIRCUMSTANCES OF INDIVIDUAL COUNTRIES; STRONG COUNTRIES SHOULD AIM AT GROWTH OF DOMESTIC DEMAND AT MAXIMUM RATE CONSISTENT WITH AVOIDING RESURGENCE OF INFLATION; WEAK COUNTRIES MUST CONTINUE (OR ADOPT) STABILIZATION POLICIES; (D) MINISTERS AGREED TO ESTABLISH A MONITORING PROCESS UNDER WHICH COUNTRIES WOULD SUBMIT THEIR PRELIMINARY OBJECTIVES FOR GROWTH OF OUTPUT AND DOMESTIC DEMAND AND THEIR STABILIZATION POLICIES FOR 1978 TO OECD. SUBMISSIONS WOULD BE EXAMINED BY THE EPC AND/OR OTHER OECD BODIES FOR THEIR MUTUAL CONSISTENCY AND TO DETERMINE THEIR GLOBAL IMPLICATIONS AND CAN PROVIDE BASIS FOR MONITORING PROGRESS DURING NEXT YEAR. IT WAS FELT PREMATURE TO CALL FOR END-1977 MINISTERIAL (AND NO MENTION OF IT WAS MADE IN COMMUNIQUE), BUT POSSIBILITY OF SUCH MEETING NOT EXCLUDED. (NOTE: AT PRESS CONFERENCE IMMEDIATELY FOLLOWING PLENARY, SEC-GEN VAN LENNEP ALLUDED TO POSSIBILITY OF HOLDING SPRING, 1978 MINISTERIAL OFF-CYCLE IN CONNECTION WITH MONITORING PROCESS.); (E) MINISTERS CALLED FOR HIGH-LEVEL CONFERENCE LIMITED OFFICIAL USE

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ENCE ON YOUTH UNEMPLOYMENT.

2. WITH EXCEPTION OF SPAIN (WHICH UNABLE TO MAKE DECISION SO SHORTLY AFTER ELECTIONS), COUNTRIES AGREED TO RENEW TRADE PLEDGE FOR ANOTHER YEAR. TURKEY AGREED AD REFERENDUM TO RENEWAL. OTHER COUNTRIES (E.G., NZ) STRESSED LINKAGE BETWEEN RENEWAL OF TRADE PLEDGE AND ACHIEVEMENT OF ADEQUATE GROWTH IN STRONG COUNTRIES.

3. IN ADDRESSING QUESTION OF ADEQUACY OF OFFICIAL FINANCING RESOURCES, MOST COUNTRIES FELT THAT STRENGTHENING OF IMF RESOURCES AND RATIFICATION OF OECD FINANCIAL SUPPORT FUND SHOULD BE VIEWED AS COMPLEMENTARY. IMF MANAGING DIRECTOR WITTEVEEN REPORTED ON STATUS OF IMF SPECIAL CREDIT FACILITY (REF C).

4. PROF. MCCracken OUTLINED MAIN CONCLUSIONS OF MCCracken GROUP REPORT. MINISTERS AGREED THAT REPORT'S POLICY RECOMMENDATIONS, PARTICULARLY THOSE DEALING WITH NON-ACCOMMODATION OF INFLATION OVER MEDIUM TERM, SHOULD BE STUDIED.

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5. COMMUNIQUE (REF D) REFLECTS ABOVE CONSENSUS. IT ALSO CONTAINS LANGUAGE ON ILLICIT PAYMENTS WHICH IS CONSISTENT WITH U.S. POSITION ON THIS ISSUE. END SUMMARY.

6. STRATEGY FOR SUSTAINED EXPANSION IN OECD AREA; PROSPECTS AND POLICIES: SECRETARY BLUMENTHAL URGED ALL MEMBER COUNTRIES TO JOIN IN THE COMMITMENTS TO GROWTH AND STABILIZATION POLICIES MADE AT THE LONDON SUMMIT. HE STRESSED THE NEED FOR MEMBER COUNTRIES TO PURSUE COORDINATED, BUT DIFFERENTIATED POLICIES TO OVERCOME THE PERSISTENT PROBLEMS OF HIGH UNEMPLOYMENT, RAPID INFLATION AND PAYMENTS IMBALANCES. STRONG COUNTRIES (HE CITED FRG, JAPAN, NETHERLANDS AND SWITZERLAND) SHOULD MOVE TOWARD CURRENT ACCOUNT DEFICIT BY (A) GENERATING MAXIMUM GROWTH OF DOMESTIC
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DEMAND CONSISTENT WITH AVOIDING RESURGENCE OF INFLATION;
(B) ALLOWING THEIR EXCHANGE RATES TO APPRECIATE;
FOREIGN EXCHANGE RESERVES ACQUIRED OUTSIDE THE MARKET
(E.G., INTEREST ACCRUALS) SHOULD BE RESOLD; AND (C)
ELIMINATING PRACTICES WHICH ENCOURAGE EXPORTS AND
IMPEDE IMPORTS AS WELL AS BY DISMANTLING MONETARY AND
CAPITAL CONTROLS WHICH MIGHT DEPRESS EXCHANGE RATES.

7. SECRETARY BLUMENTHAL RESERVED JAPAN AND FRG FOR
SPECIAL ATTENTION NOTING THAT PRESENT POLICIES MIGHT
NOT ALLOW THOSE COUNTRIES TO ACHIEVE THEIR SUMMIT
GROWTH TARGETS AND THAT THEIR GROWTH LEANED EXCESSIVELY
ON EXPORTS. HE STATED THAT U.S. "HAD FAITH" IN
ASSURANCES OF SCHMIDT AND FUKUDA THAT FURTHER MEASURES
WOULD BE TAKEN AS NEEDED TO REACH THEIR GROWTH GOALS
AND TO REDUCE THEIR CURRENT ACCOUNT SURPLUSES.

8. WEAK COUNTRIES, U.S. CONTINUED, MUST PERSEVERE IN
THEIR STABILIZATION EFFORTS (OR ADOPT THEM), ALLOW
THEIR EXCHANGE RATES TO DEPRECIATE AND PURSUE POLICIES
WHICH ENSURE THAT THE COMPETITIVE GAINS ARISING FROM
DEPRECIATION ARE NOT DISSIPATED BY INFLATION.

9. U.K. (HEALEY) LAMENTED THE CONTRAST BETWEEN THE
5 PERCENT PLUS GROWTH OBJECTIVE OF THE OECD'S MEDIUM-
TERM STRATEGY AND STRONG COUNTRIES' ACTUAL AND EXPECTED
PERFORMANCE. HE EXPRESSED DOUBT THAT FRG AND JAPAN
WOULD ACHIEVE THE GROWTH TARGETS FOR 1977 TO WHICH THEY
HAD COMMITTED THEMSELVES AT THE SUMMIT AND ASKED THOSE
COUNTRIES TO INDICATE WHAT FURTHER ACTION THEY WOULD
TAKE IF GNP GROWTH SEEMED LIKELY TO FALL SHORT OF
TARGETED RATES. HEALEY STRESSED THAT SURPLUS COUNTRIES
SHOULD SET TARGETS FOR GROWTH OF DOMESTIC DEMAND IN 1978
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AS WELL AS FOR GNP TO HELP ENSURE THAT PATTERN OF THEIR
GROWTH WOULD BE CONDUCIVE TO BRINGING ABOUT SUSTAINABLE
PATTERN OF PAYMENTS. FINALLY, HE URGED SERIOUS STUDY
OF AND CONCERTED OECD REPLY TO ALTERNATIVE GROWTH
SCENARIO ESPOUSED BY TUAC AT MAY 5 LIAISON COMMITTEE
MEETING (SEE REF B).

10. FRENCH AND ESPECIALLY SMALL COUNTRIES JOINED U.S.
AND U.K. IN CALL FOR ADEQUATE GROWTH OF DOMESTIC DEMAND
IN SURPLUS COUNTRIES. FRG (SCHLECHT), IN RESPONSE TO
COMMENTS BY U.S. AND U.K., UNDERLINED ITS INTENTION
TO TAKE MEASURES AS NECESSARY TO ACHIEVE GROWTH TARGET
PLEDGED AT THE LONDON SUMMIT. SCHLECHT STRESSED, HOW-

EVER, THAT DUE TO FORCES OUTSIDE THEIR CONTROL, GOVERNMENTS ARE INCAPABLE OF HITTING PRECISE NUMERICAL TARGETS AND STATED THAT ACHIEVEMENT OF GROWTH RATE OF 4.5 PERCENT IN 1977 WOULD NOT BE INCONSISTENT WITH GERMANY'S SUMMIT COMMITMENTS. FRG NOTED THAT OPERATION OF MEDIUM-TERM INVESTMENT PROGRAM, TOGETHER WITH OTHER MEASURES TAKEN RECENTLY, WOULD HELP IN REALIZATION OF GROWTH OBJECTIVES, BUT POINTED TO VARIOUS FACTORS LIMITING DEGREE TO WHICH DOMESTIC DEMAND COULD BE EXPECTED.

11. JAPANESE SIMPLY STATED THAT RECENT STIMULATORY ACTIONS WOULD PUT ECONOMY IN GROWTH PATH CONSISTENT WITH SUMMIT PLEDGE (6.7 PERCENT IN YEAR ENDING MARCH 78) AND THAT GROWTH AT THIS RATE WOULD BOOST WORLD TRADE.

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12. PROPOSAL FOR ESTABLISHING OECD AREA GROWTH TARGET AND NATURE OF MONITORING PROCESS: SECRETARY BLUMENTHAL SUPPORTED SECRETARIAT'S PROPOSAL FOR COUNTRIES TO SUBMIT PRELIMINARY OBJECTIVES FOR GROWTH OF OUTPUT AND

DOMESTIC DEMAND AND STABILIZATION POLICIES FOR 1978. U.S. AGREED FURTHER THAT SUCH SUBMISSIONS COULD FORM BASIS FOR STUDY AND COMMENT IN THE EPC TO EVALUATE THEIR MUTUAL CONSISTENCY AND GLOBAL IMPLICATIONS. MINISTERIAL CONSENSUS WAS CONSISTENT WITH U.S. POSITION IN THIS RESPECT AS WELL AS WITH U.S. VIEW THAT IT WOULD BE PREMATURE TO CALL FOR MINISTERIAL AT END-1977 TO CAP OFF MONITORING PROCESS. MOST COUNTRIES FELT THAT IT WOULD BE USEFUL FOR MINISTERS TO ANNOUNCE OECD AREA GROWTH OBJECTIVE OF 5 PERCENT FOR 1978. U.K. (HEALEY) STRONGLY SUPPORTED ANNOUNCING GROWTH TARGET AND STATED THAT NEED TO MAKE UP FOR EXPECTED SHORTFALL LIMITED OFFICIAL USE

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FROM GROWTH RATES OF MEDIUM-TERM STRATEGY IMPLIED THAT TARGET FOR 1978 SHOULD EXCEED 5 PERCENT.

13. OFFICIAL FINANCING: U.S. NOTED THAT EVEN WITH TIMELY IMPLEMENTATION OF APPROPRIATE POLICIES IN SURPLUS AND DEFICIT COUNTRIES, ADJUSTMENT TOWARD BETTER PAYMENTS PATTERN WOULD TAKE TIME. HENCE, ADEQUACY OF OFFICIAL FINANCING RESOURCES MUST BE ASSURED. IN THIS CONNECTION, U.S. URGED COUNTRIES TO SUPPORT CREATION OF IMF SPECIAL CREDIT FACILITY AS WELL AS INCREASE IN IMF QUOTAS. ALL COUNTRIES SUPPORTED AUGMENTATION OF IMF RESOURCES, BUT MOST ARGUED THAT SUCH AN INCREASE DID NOT OBVIATE NEED TO IMPLEMENT FINANCIAL SUPPORT FUND (FRG AND CANADA DID NOT REFER TO SUPPORT FUND IN THEIR INTERVENTIONS). SWISS INTERJECTED THAT SPECIAL ASSISTANCE PACKAGE FOR PORTUGAL WAS LAUDATORY, BUT SHOULD NOT CREATE A PRECEDENT FOR SKIRTING ESTABLISHED INSTITUTIONAL MECHANISMS IN FUTURE. PORTUGAL STRESSED THAT ASSISTANCE PACKAGE WAS CONCRETE EXAMPLE OF EFFECTIVE COOPERATION AMONG OECD COUNTRIES.

14. IMF MANAGING DIRECTOR WITTEVEEN GAVE DETAILED REPORT (REF C) IN STATUS OF NEGOTIATIONS TO ESTABLISH IMF SPECIAL CREDIT FACILITY. (NOTE: AT PRESS CONFERENCE GIVEN BY SECRETARIES VANCE AND BLUMENTHAL FOLLOWING PLENARY SESSION, SECRETARY BLUMENTHAL WAS ASKED HOW U.S. WOULD VIEW SUPPORT FUND IF PROGRESS TOWARD ESTABLISHING IMF SPECIAL CREDIT FACILITY PROVED UNSATISFACTORY. SECRETARY BLUMENTHAL INDICATED THAT, IN THIS EVENT, U.S. WOULD REVIEW ALL POSSIBILITIES, INCLUDING THE SUPPORT FUND. FOR TRANSCRIPT OF PRESS CONFERENCE, SEE REF E.)

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15. UNEMPLOYMENT: IN CALLING FOR OECD AREA GNP GROWTH IN 1978 ABOVE THAT EXPECTED FOR THIS YEAR, COUNTRIES UNDERLINED PARAMOUNT NEED TO EFFECT REDUCTIONS IN UNEMPLOYMENT. THEY NOTED THAT FASTER GROWTH ALONE WAS NOT COMPLETE SOLUTION TO PROBLEM OF STRUCTURAL UNEMPLOYMENT AND CITED DISPROPORTIONATELY HIGH LEVEL OF UNEMPLOYMENT AMONG YOUNG PEOPLE. MINISTERS CALLED FOR HIGH LEVEL OECD CONFERENCE ON YOUTH UNEMPLOYMENT. CANADIANS FELT THAT QUESTION OF YOUTH UNEMPLOYMENT SHOULD BE STUDIED FURTHER BEFORE MOVING TO STAGE OF HIGH LEVEL CONFERENCE.

16. TRADE PLEDGE: MOST COUNTRIES VOICED UNQUALIFIED SUPPORT FOR RENEWAL OF TRADE PLEDGE. NEW ZEALAND RENEWED PLEDGE "WITH CONSIDERABLE MISGIVINGS" AND JOINED FINLAND AND PORTUGAL IN LINKING THEIR AGREEMENT TO ACTION BY STRONG COUNTRIES TO INSURE ADEQUATE GROWTH OF DOMESTIC DEMAND. SPANISH NOTED THAT THEY DID NOT REJECT PLEDGE, BUT WOULD HAVE TO RESERVE THEIR STAND UNTIL NEW GOVERNMENT WAS ABLE TO ADOPT FINAL DECISION IN THIS QUESTION. TURKEY AGREED AD REFERENDUM TO RENEWAL. IN ADDITION TO SUPPORTING RENEWAL OF TRADE PLEDGE, U.S. EMPHASIZED IMPORTANCE OF MAKING FURTHER PROGRESS TOWARD TRADE LIBERALIZATION BY GIVING NEW IMPETUS TO THE MTN. SALZMAN

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